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Romania

Solid Wood Products

Annual

2004

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Report Highlights:
Romania's domestic consumption of solid wood continues to expand as the country makes efforts to regain some of its traditional export markets for furniture (especially the EU), while the construction sector is one of the most dynamic in the economy. Nonetheless, the country still ships abroad large amounts of low value added products, such as lumber.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
Sofia [BU1]
[RO]

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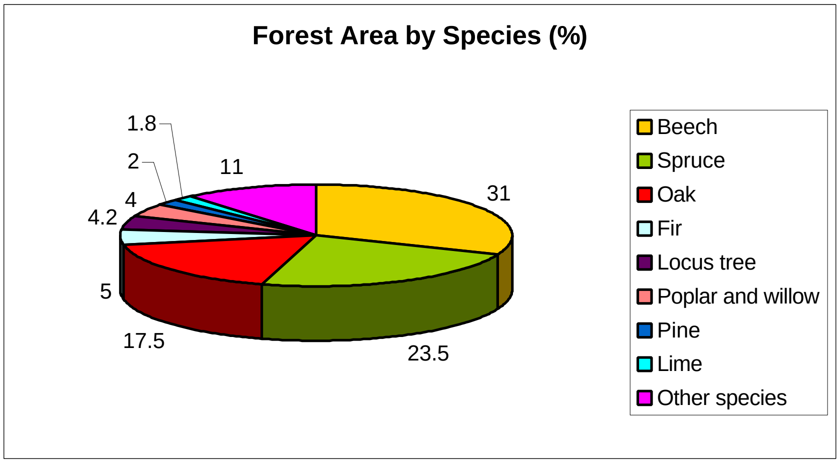
Production
The forest area represents about 27 percent of Romania's territory, that is, 6.5 million hectares, of which over 70 percent (i.e. 4.7 million hectares) publicly held and administered by the National Forest Administration (Romsilva), and the balance in private ownership. While up to the end of the '90s, almost 95 percent of the total forestland was in public property, it is estimated that, after the completion - by 2005 - of the land restitution process, one third of country's forests will have been returned to the former owners or their heirs.

The standing timber volume is currently estimated at almost 1400 million cubic meters (cum), with an annual growth rate of roughly 36,000 thousand cum (i.e., an average of 5.6 cum/HA) and a biomass average volume of 217 cum/HA. In terms of geographical distribution, 65 percent of the area under forests is located in the mountains, 28 percent in hilly areas, and some 7 percent in the plains.

By species, about 30 percent of the forests are coniferous and 70 percent decidous. Chart 1 below gives a more detailed picture of the Romanian forest composition:

Chart 1



A recent report of the National Control Authority reveals that deforestation rate in the forests returned to private owners was unexpectedly high during 1991-1999 time period. The new private owners preferred to cut timber on their own property, rather than risk losing it all to an illegal cut. It is largely acknowledged the fact there is no effective system of forest land registration (cadastre) in Romania. Without such a system, property rights cannot be clearly determined. The consequence is that often the authorities lack the means to track timber removal on private lots and to actually charge fines when the allowable cut is exceeded. Additionally, government-held forests also suffered from significant illegal timber removals. Recently, the Government of Romania and the US TDA signed a grant agreement worth $175,000 for a feasibility study meant to develop a national forestry cadastre system.

In sum, the drawback of privatization has been accelerated deforestation, increased environmental damage and other costs. Providing sustainable management of forests, in line with EU practices and regulations, continues to be a real challenge for the authorities. This is related reforestation to prevent wide-scale erosion and environmental degradation, finding solutions to maintaining a proper forest health inside the national forest area and to rural development.

Measures taken with this purpose by the National Forest Administration are numerous. Thus, the decision dating mid-2003 to free of charge provide rangers for private ownership forest guard and protection is expected to have significant results.

Moreover, the Ministry of Agriculture and Forestry makes a continuous effort to purchase the ownership right of various holders who lack the ability to properly manage their forest and thus prevent further forest degradation. In 2003, roughly $300 million were allocated for buying about 3,000 hectares of private forest, at prices varying widely with forest maturity and composition, location and other market criteria.

Consumption
Domestic demand for solid wood for construction, furniture, and all other uses, is estimated at 18 to 20 million cubic meters per year. Since this was typically higher than the legally permitted wood removals, it triggered domestic price increases, situation that encouraged domestic industry to lobby for export restrictions on log and timber.

For 2004, the allowable cut to be harvested throughout the November – April season was set by the National Forest Administration at 18 million cubic meters, compared to the 16 million cum ceiling in 2003 and, respectively, 2002 (see Table 1). Of the approved amount, 12 million cubic meters will come from forests publicly owned and administered by Romsilva, with the balance allowed to be cut from forests in private property and in local administration. Nonetheless, the amount actually harvested is usually lower, because of the poor infrastructure. Notably, the actual annual cut is about half of the annual biological growth rate.

Table 1 below presents the annual distribution of the total allowable wood harvest in Romania.

Table 1. Annual Allowable Cut Distribution in Romania (million cubic meters)

	2000	2001	2002	2003	2004
Total allowable cut, of which:	15.8	17	16	16	18
-from forests under national administration, of which for:	14.8	11	14.2	12.6	12
• Industrial processing (timber and woodworking operations)	10.8	8.1	10.4	9	8.6
• Romsilva own consumption	0.8	0.4	0.3	0.4	0.6
• Supply for firewood and rural dwellings	3.2	1.5	2.5	2.2	2.2
• Construction of forest roads		1	1	1.0	0.6

Government measures to provide wood for fire and dwellings to rural populations were introduced with the view of diminishing the illegal forest cut. If illegal timber removal was down 30 percent in 2002 compared to 2001 (from 139,733 cubic meters 98,000 cubic meters), as reported in RO3006, an additional reduction of 10 percent was registered in 2003 as against the previous year. Since 1999 an allocation for forest road construction has been introduced, as an incentive for companies interested in taking over such projects

Over 65 percent of the wood processed comes from coniferous forests, with the balance of 35 percent harvested from deciduous forests.

Policy
The scarce resources allocated for forest management and reforestation resulted in a

decline of the growing stock over the last decade. The reforestation rate (translated, in absolute terms, in a target level of 18,000 hectares) is still well below the annual levels in the '80s.

In 2003, works for forest regeneration were done on 19.7 thousand hectares (of which rehabilitation of forests affected by natural disasters was done on 3,364 hectares and protection forests were planted on 260 hectares). In addition, with the 313 km built during the year, the forest road network reached 32,000 km.

In 2004, the budgeted amount stands at $8.6 million, of which a number of programs are to be funded as follows:

- $370,000 for ecological rehabilitation of polluted areas;
- $167,000 for ecological rehabilitation of depreciated land;
- $773,000 for increasing safety and accessibility of forest roads;
- $1.8 million for natural disaster prevention measures;
- $830,000 for building forest roads;
- $1.1 million for torrent correction activities;
- $2.375 million for measures aimed at removing the effects of natural disasters from 1998-2000.

Additional investment programs are financed by the state budget and the European Bank of Investment. The Romanian Government has also attracted foreign funding for several projects. Among those, a reforestation program for desertic areas will help Romania to comply with the 1997 Kyoto Protocol recommendations. With this purpose, the World Bank will disburse $3.1 million over a three-year period (2002-2005), in which new forests are to be planted on more than 6,700 hectares of wasteland.

From the second half of the year 2004 the pre-accession SAPARD funding will be available (under measure 3.5) to private forest holder associations for forest infrastructure, reforestation, and exploitation. Reportedly, there are at present over 55 such private associations, covering more than 550,000 hectares of forestland.

The Romanian government and the World Bank also signed a $25 million loan agreement for forest management and rehabilitation. Both central and local governments are to provide matching funds of about $9 million.

Forest Certification

Forest certification is mandatory for Romania in order to be allowed to sell wood products on the Western markets. This process attests that the forests the products originate from fulfill certain economic, social and environmental criteria. Currently, only some 30,000 hectares of forestland went thorough certification procedures. A constraint that makes Romania to much lag behind other EU-admission candidate states is the scarce accredited personnel to pursue this process.

Trade

Currently there is no trade restriction on solid wood materials, as allowable cut has been gradually raised to 18 million cum in 2004, which is expected to meet domestic demand and provide an exportable surplus. Nonetheless, log and lumber exports are monitored via licenses issued by the Ministry of Agriculture, Waters, Forestry and Environment, in order to prevent domestic market shortages like in 2000-2001.

In 2003 exports of logs went down significantly, in parallel with a vigorous push in lumber exports. The explanation resides in several factors, the most important, besides world price, being a good portion of the lumber production originates from very small (micro-enterprises) and medium sized firms, which enjoy a number of fiscal and financial incentives, consistent with the GOR and different donors' efforts to promote regional and rural employment.

Hardwood industrial round wood exports stood at about 85,000 cum, main destinations being Turkey (oak, beech), Austria, Italy, Spain.

Exports of softwood logs totaled about 40,000 cum and were shipped to Bulgaria, Austria, Egypt, Spain, and Hungary.

Romania imported approximately 10,000 cum of softwood logs and 3300 cum of oak and beech logs from Ukraine and Russia.

Close to 1,2 million cum of softwood lumber were shipped in 2003 to different destinations such as Middle East countries (Saudi Arabia, Lebanon, Libya, Syria, Jordania), Greece, Hungary, Austria, Serbia.

Most of the 490,000 cum of hardwood lumber exported by Romania in 2003 had European countries as customers: Italy, Greece, Turkey, Spain, France, Portugal, Germany.

Market Segment Analysis

Wood processing industry in Romania is well established. In 2003, production in the sector continued the upward trend registered in the last couple of years, growing (in volume terms) by 16 percent. Similarly, the amount of wooden products (apart from furniture) exported to various destinations increased by 9 percent.

On-going market consolidation is the main trait of the sector in Romania, as a result of the wood processing operation exodus towards east of from Western Europe.

Timber Industry

The sector has attracted important investments in the recent years, as modern MDF, particleboard, laminated board and veneer plants opened. The export value in the wood processing industry reached in 2003 $1.6 billion.

Nonetheless, domestic market development is still severely distorted by a number of factors. Among those, the high number of small and medium sized private firms established for the production of saw lumber and construction materials, many of them operating quasi-legally with mobile sawmills and selling at dumping prices. Another constraint is the poor forest road infrastructure, resulting in forest over-logging in the easily accessible areas.

In 2003, Romania estimatedly produced over 3.5 million cubic meters of lumber (of which more than half in small factories, like the ones described above). The national statistics registered that relatively large wood predecessors produced 27 million sq. meters of aesthetic veneer sheets, 75,000 cubic meters of plywood, 9,2 million sq. meters of wooden plate chips, 200,000 tons of fiberboard, and over 28,000 pieces of prefabricated wooden houses.

Furniture and Interiors Sector

After bottoming out in the '90s, Romania's furniture industry has been steadily revamping and, moreover, domestic producers struggle to regain the Western European markets, a major destination during the communist era.

In 2002, the furniture production (in physical terms) grew by 10 percent. Production continued to expand by an estimated 7 percent in 2003.

Domestic demand for high value furniture products–Romania's specialty—remains low. Consequently, in 2002, 80 percent of the furniture produced in Romania was exported and a similar share is estimated for 2003. In 2002, furniture and interiors export value reached $654.4 million of which furniture exports made up for $614.4 million, 23 percent up from 2001. This was, nonetheless, partly due to the euro appreciation vis-à-vis the US dollar. By comparison, provisional official estimates show that furniture exports went up by only 7 percent in 2003.

In 2002, furniture import growth was even higher, that is, 23.6 percent, as domestic consumers prefer products moderately priced (often from wood industrial substitutes); the main suppliers were Poland, Italy, and France.

Modernization contributed to notable changes in the value of Romanian furniture output. Currently, there are about 2900 furniture producers, employing about 100,000 people. The later number is about half of sector's labor force before 1989, but productivity more than doubled.

Construction Sector

Overall construction market value in Romania is assessed within very broad limits because of insufficient statistical information. Official sources quoted by Post in RO3006 were anticipating one year ago this value to reach $4 billion in 2003, as a result of a 8-10 percent increase. The forecast was based on both the extensive programs for road building and rehabilitation initiated by the Ministry of Transportation and Public Works, but also on the initiatives of the authorities to re-launch construction of dwellings. The Romanian Association of Constructors, quoted by specialized economic press, recently estimated the domestic construction market value at the end of 2003 in the range of about $5.5-6 billion, corresponding to a 20 percent annual growth rate. Nonetheless, it is beyond doubt that a steady increase makes the sector one of the most dynamic in the Romanian economy.

An interesting trait of this highly competitive market is that lately new comers (generally, foreign companies) have significantly gained market share, at the expense of the Romanian traditional players. Examples of such contractors are Bechtel (US), Strabag (Germany), Vinci (France) - involved especially in large projects for road building and rehabilitation-, Diekat (Greece), Astaldi (Italy), etc.

The year 2003 brought unexpected developments on the real estate market. The housing market in Romania continues to be highly supply-constrained. For instance, in country's Capital, Bucharest, with a population of about 2 million people, it is estimated that there are about 800,000 inhabitants (registered or not as permanent residents) who do not own a dwelling. This fact corroborated with the fact that most commercial banks loosened borrowing requirements for mortgage loans in Romania, pushed up prices for apartments in multi-family residential buildings (the type prevailing in urban areas) by 80 percent or more.

Another segment of demand comes from the increasingly numerous upper and middle-class, who accumulated money in the last ten years or so and try to move out of the multi-family blockhouses typically built during the communist regime. These families typically target dwellings priced at $80,000-300,000 (as prices per square meter range between $400-1300, depending on location and finishing materials). As a result, residential areas in suburbs of the major cities or in mountainous regions are rapidly expanding.

A third engine of real estate market's development is the fact that foreign investors' interest in the industry remains high.

The government dwelling agency was set up with the purpose to address some of the constraints on the market. Consequently, there are a number of on-going projects, from building large, expensive residential parks to providing favorable terms (subsidized long term loans) to young couples or low-income families to be able to acquire small apartments in multi-family residential buildings.

Many dwellings are built in rural areas, self-financed by the owner and often with primitive technologies.

Production, supply and demand data for solid wood products are given in Tables 2-5 below.

Table 2. Production, supply and demand

Romania							
Softwood Logs							
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		01/2003		01/2004		01/2005	MM/YYYY
Production	2950	3400	3000	3500	0	3500	1000 CUBIC METERS
Imports	5	10	0	10	0	5	1000 CUBIC METERS
TOTAL SUPPLY	2955	3410	3000	3510	0	3505	1000 CUBIC METERS
Exports	270	40	300	50	0	45	1000 CUBIC METERS
Domestic Consumption	2685	3370	2700	3460	0	3460	1000 CUBIC METERS
TOTAL DISTRIBUTION	2955	3410	3000	3510	0	3505	1000 CUBIC METERS

Table 3. Production, supply and demand

Romania							
Temperate Hardwood Logs							
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		37622		37987		38353	MM/YYYY
Production	3400	3600	3500	3800	0	3900	1000 CUBIC METERS
Imports	25	3	0	5	0	5	1000 CUBIC METERS
TOTAL SUPPLY	3425	3603	3500	3805	0	3905	1000 CUBIC METERS
Exports	250	85	260	90	0	80	1000 CUBIC METERS
Domestic Consumption	3175	3518	3240	3715	0	3825	1000 CUBIC METERS
TOTAL DISTRIBUTION	3425	3603	3500	3805	0	3905	1000 CUBIC METERS

Table 4. Production, supply and demand

Romania							
Softwood Lumber							
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		01/2003		01/2004		01/2005	MM/YYYY
Production	1640	2400	1650	2500	0	2500	1000 CUBIC METERS
Imports	5	4	5	3	0	0	1000 CUBIC METERS
TOTAL SUPPLY	1645	2404	1655	2503	0	2500	1000 CUBIC METERS
Exports	490	1250	500	1300	0	1300	1000 CUBIC METERS
Domestic Consumption	1155	1154	1155	1203	0	1200	1000 CUBIC METERS
TOTAL DISTRIBUTION	1645	2404	1655	2503	0	2500	1000 CUBIC METERS

Table 5. Production, supply and demand

Romania							
Temperate Hardwood Lumber							
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		37622		37987		38353	MM/YYYY
Production	950	1190	940	1300	0	1300	1000 CUBIC METERS
Imports	10	10	10	10	0	10	1000 CUBIC METERS
TOTAL SUPPLY	960	1200	950	1310	0	1310	1000 CUBIC METERS
Exports	270	490	250	560	0	500	1000 CUBIC METERS
Domestic Consumption	690	710	700	750	0	810	1000 CUBIC METERS
TOTAL DISTRIBUTION	960	1200	950	1310	0	1310	1000 CUBIC METERS

Export Trade Matrix	CUM
Country	Romania
Commodity	Softwood Logs
Time Period	CY
Exports for:	2003
U.S.	0
Others	
Bulgaria	7668.79
Austria	8255.39
Egypt	7850
Spain	2388.2
Ungaria	1508.55
Total for Others	27670.93
Others not Listed	12000
Grand Total	39670.93

Import Trade Matrix	CUM
Country	Romania
Commodity	Softwood Logs
Time Period	CY
Imports for:	2003
U.S.	0
Others	
Ukraine	5000
Russia	4800
Total for Others	9800
Others not Listed	
Grand Total	9800

Export Trade Matrix	CUM
Country	Romania
Commodity	Temperate Hardwood Lumber
Time Period	
Exports for:	
U.S.	
Others	
Italy	147,547.1
Greece	82,714.29
Hungary	39,234.29
Turkey	27,935.71
Spain	15,121.43
France	14,960
The Netherlands	13,971.43
Sweden	12,135.71
Portugal	9714.286
Germany	8964.286
Total for Others	372,298.6
Others not Listed	119000
Grand Total	491,298.6

FOREST PRODUCT

STRATEGIC INDICATOR TABLES FOR ROMANIA

CONSTRUCTION MARKET

Country: Romania **Report Year: 2004**	**Previous** **Calendar Year**	**Current Calendar Year**	**Following Calendar Year**
Total Housing Starts (thousand units)	32	33	35
--of which, wood frame (thousand units)	4	4	5
--of which, steel, masonry, other materials (thousand units)	28	29	30
--of total starts, residential (thousand units)	5	6	n/a
----of residential, single family (thousand units)	4	5	n/a
----of residential, multi-family (thousand units)	1	2	n/a
--of total starts, commercial (thousand units)	2	2	n/a
Total Value of Commercial Construction Market ($US mil)	600	720	750
Total Value of Repair and Remodeling Market ($US million)	n/a	n/a	n/a

FURNITURE & INTERIORS MARKET

Country: Romania Report Year:	Previous Calendar Year	Current Calendar Year	Following Calendar Year
Total Housing Starts (number of units)	31,000	32,000	35,000
Total Number of Households	7,393,000	7,394,000	7,394,000
Furniture Production ($US million)	760	800	830
Total Furniture Imports ($US million)	80	85	85
Total Furniture Exports ($US million)	620	640	650
Interiors Market Size ($US million)	50	55	60

MATERIAL HANDLING MARKET

Country: Report Year:	Previous Calendar Year	Current Calendar Year	Following Calendar Year
Total Value of Industrial Output ($US million)	8	8	9
New Pallet Production (million units)	0.7	0.8	0.8

FOREST AREA

Country: Romania

Report Year: 2004

	Previous Calendar Year	Current Calendar Year	Following Calendar Year
Total Land Area (million hectares)	23.75	23.75	23.75
Total Forest Area (million hectares)	6.40	6.50	6.50
--of which, Commercial ('000 hectares)	6,165	6,270	6,350
----of commercial, tropical hardwood ('000 hectares)	0	0	0
----of commercial, temperate hardwood ('000 hectares)	4,265	4,270	4,300
----of commercial, softwood ('000 hectares)	1,900	2,000	2,050
Forest Type			
--of which, virgin ('000 hectares)	410	410	400
--of which, plantation ('000 hectares)	5,160	5,240	5,250
--of which, other commercial (regrowth) ('000 hectares)	830	850	850
Total Volume of Standing Timber (thousand cubic meters)	1,368,400	1,388,560	1,408,300
--of which, Commercial Timber ('000 cum)	1,300,000	1,300,000	1,320,000
Annual Timber Removal ('000 cum)	15,680	16,660	16,500
Annual Timber Growth Rate ('000 cum)	35,840	36,400	36,400
Annual Allowable Cut ('000 cum)	16,000	18,000	18,000

FOREST PRODUCT TARIFFS AND TAXES (percent)

Country: RO	Product Description 1/	Current Year (%)	Following Year (%)	Import Taxes/Fees	Total Cost of Import 2/	Export Tax
4401	Firewood	3	3	0	3	no
44012100	In small particles, coniferous	3	3	0	3	no
44012200	In small particles, other than coniferous	3	3	0	3	no
4403	Timber	3	3	0	3	no
4404	Lumber for barrels	10	10	0	10	no
4405	Woodwool, wood flour	10	10	0	10	no
4406	Flitch wood	10	10	0	10	no
4407	Wood sawn or chipped lengthwise	7	7	0	7	no
4408	Veneer sheets and other wood sawn lengthwise	10	10	0	10	no
4409	Wood continuously shaped	30	30	0	30	no
4410	Particle board	10	10	0	10	no
4411	Fiberboard of wood	10	10	0	10	no
4412	Plywood	8	8	0	8	no
4413	Densified wood in blocks	10	10	0	10	no
4414	Wooden frames	25	25	0	25	no
4415	Packing cases of wood	25	25	0	25	no
4416	Wood barrels	25	25	0	25	no
4417	Tools of wood	25	25	0	25	no
4418	Wood joinery	15	15	0	15	no
4419	Tableware and kitchenware	40	40	0	40	no
4420	Decorative panels and objects	25	25	0	25	no
4421	Other articles of wood	25	25	0	25	no
4422	N/A					
4423	N/A					
4424	N/A					
4425	NA					
Pre-fabricated Houses, a subsection under chapter 96						